



Report to the Auburn City Council

Action Item
Agenda Item No. 4

City Manager's Approval

To: Honorable Mayor and City Council Members
From: George E. Williams, City Treasurer
Andy Heath, Administrative Services Director
Date: March 23, 2009
Subject: Quarterly Report of Investments – Quarter Ending December 31, 2008

The Issue

The City Council is required by state law and the City of Auburn's Investment Policy to receive and review a Quarterly Investment Report.

Recommended Action Requested

Receive, review and file the "City of Auburn Quarterly Investment Report" for the quarter ending December 31, 2008.

Background

The City of Auburn Quarterly Investment Report (Investment Report) for the quarter ending December 31, 2008 has been prepared in compliance with the reporting requirements as set for in the State of California Government Code Sections 53600 et seq. and the City of Auburn Investment Policy. The Investment Report contains the following information:

- Identification of the type of each investment held in the City's Treasury;
- Identification of the legal name of the issuer or fiduciary of each investment held in the City's Treasury;
- A listing of the dollar amount invested for each item in the Treasury Portfolio;
- A listing of the maturity date of those investments having fixed maturities;
- A confirmation that the reported investments conform to the City's adopted investment policy; and
- A confirmation of the City's ability to meet its pooled expenditure requirements for the next six months.

AnalysisINVESTMENT SUMMARYCity of Auburn Pooled Investment Accounts:

<i>For the quarter ended:</i>	<u>December 2008</u>	<u>September 2008</u>	<u>December 2007</u>
Portfolio value – end of quarter:	\$7,760,434	\$9,977,454	\$6,024,326
Portfolio effective yield – end of quarter:	3.20%	3.62%	3.98%
Dollar-weighted days to maturity – end of quarter:	648	737	307
Portfolio interest earnings (1) – end of quarter:	\$94,578	\$127,561	\$144,996
Net unrealized gain / (loss) (2) – end of quarter:	\$78,796	\$(125,734)	\$8,803

Auburn Urban Development Authority Bond Proceeds Accounts:

<i>For the quarter ended:</i>	<u>December 2008</u>	<u>September 2008</u>	<u>December 2007</u>
Portfolio value – end of quarter:	\$4,602,133	N/A	N/A
Portfolio effective yield – end of quarter:	3.43%	N/A	N/A
Dollar-weighted days to maturity – end of quarter:	466	N/A	N/A
Portfolio interest earnings (1) – end of quarter:	\$0	N/A	N/A

- (1) Interest earnings on investments distributed to City during reporting quarter.
 (2) Unrealized “paper” gains / (losses) on investments due to fluctuations in market value. Unrealized gains and losses impact interest earnings each month as the City is required to account for and book investments at marketable value.

PORTFOLIO / TREND ANALYSIS

As a means to account for the investment of Auburn Urban Development Authority (AUDA) Bond Proceeds received in October 2008, the Investment Report has been updated to include appropriate analysis for these separately invested funds. In addition to the table presented as part of the Investment Summary above, attachments to this report have also been updated with appropriate AUDA investment information.

Attachment A provides detailed information for each of the City's investments as of the quarter ended December 31, 2008. Investments are categorized into one of four groups:

Fixed Rate Investments: Investments purchased which pay interest on a periodic basis at a fixed coupon / stated rate. Discounted commercial paper is also included in this group. Fixed Rate Investments, consistent with the City's Investment Policy, are generally held to maturity and not sold in the open market.

Pooled Investments: Monies pooled with the State of California (Local Agency Investment Fund) and Placer County (County Investment Pool) which are generally available on a daily basis.

Unrestricted Financial Institution Investments: Unrestricted operating account monies available in demand accounts for accounts payable and payroll. Certificates of deposit and money market accounts are also included with this group.

Restricted Financial Institution Investments: Restricted demand accounts maintained for the payment of obligations for designated city programs.

Auburn Urban Development Authority Bond Proceeds: All bond proceeds are invested separate from the pooled investment accounts. Bond proceeds are invested consistent with anticipated project payment schedules and are invested in the CDARS Certificate of Deposit Program, which is 100% FDIC insured.

Attachment B provides investment trend information for the last nine quarters. The City's investment portfolio yield as of December 31, 2008 is 3.62%. The effective yield has decreased by 42 basis points (0.42%) when compared to the yield reported for quarter ended September 30, 2008. This decrease in investment yield occurred primarily as a result of decreasing interest rates in the overall market coupled with the placement of maturing investments into lower-yielding investments. Since July 2007, the Federal Open Market Committee has lowered interest rates by 5.75% in an effort to mitigate the impacts of the housing and credit crises; and in response to the severe economic recessionary climate.

During the quarter ended December 31, 2008, the City realized \$94,578 in investment earnings. In addition to the investment earnings, the City experienced a \$78,796 unrealized gain in portfolio market value. The unrealized market gain, which is required

to be amortized into the portfolio value, fluctuates from month-to-month in response to overall market conditions.

As discussed in the September 30, 2008 Investment Report, Lehman Brothers, the fourth largest investment bank in the United States at the time, filed for bankruptcy on September 15, 2008. The Lehman Brothers bankruptcy, which followed by only a week the Federal Government "bail out" of Fannie Mae and Freddie Mac, provided an indication of the severe financial market turmoil to come as a result of the unwinding of loose lending policies and excessive credit provided during the housing boom over the past decade. At the time of the Lehman bankruptcy, the City owned a medium-term corporate bond in Lehman Bros. Holdings in the amount of \$125,000. The value of the bond as of December 31, 2008 was \$11,875. The unrealized loss of \$113,125 has been fully amortized as a component of investments earnings.

In response the bankruptcy action taken by Lehman, the City has filed the necessary proof of claim with the United States Bankruptcy Court – Southern District of New York. Also, the City has entered into an agreement with a professional legal services firm to assist with the investigation and prosecution of a case against certain individuals or entities responsible for losses stemming from the City's investment in Lehman Bros. Finally, the City continues to participate with a working group of more than 80 cities, counties and special districts with combined Lehman exposure of approximately \$1.67 billion, seeking reimbursement of losses through the Federal Government's \$700 billion Troubled Assets Relief Program (TARP) signed into law on October 3, 2008.

During the quarter ended December 31, 2008, the City's pooled investment portfolio decreased by approximately \$2.22 million. Because the City receives the majority of property tax and related assessments only twice annually (approximately \$4.9 million in both January and May), overall cash balances during the months preceding the January distribution of revenues are expected to decline. Funds received from the two installments represent approximately 40% of budgeted revenues citywide; and are invested consistent with anticipated cash-flow requirements.

All investments held at December 31, 2008, but for the exception noted below, conform to the City's Investment Policy and the State of California Government Code. Based on the Administrative Services Department's cash flow projection as of December 31, 2008, funds on deposit and anticipated revenue collections for the period January 1, 2009 through June 30, 2009 are sufficient to meet all anticipated City expenditures during the same period.

PORTFOLIO INVESTMENT EARNINGS

Below is a comparison of actual Investment earnings on the City's portfolio to the fiscal year 2008-09 budget.

<u>Net Investment Earnings</u>	<u>Yield</u>	<u>General Fund</u>	<u>Other Funds</u>
<i>Quarter Ending 12/31/08</i>			
Budget	3.00%	\$ 40,000	\$ 148,150
Actual (1)	3.44%	<u>15,825</u>	<u>159,376</u>
Variance		<u>(\$ 24,175)</u>	<u>\$ 11,226</u>

(1) Includes amortization of unrealized market value loss

INVESTMENT POLICY EXCEPTION

1. Section 8.0(8) of the City's Investment Policy requires that the maturity of any corporate note held in the City's investment portfolio shall not exceed three years. As of December 31, 2008, each of the four corporate notes currently held in the investment portfolio have maturities ranging from approximately 2.00 to 4.25 years.

As discussed in the Investment Report for the quarter ended September 30, 2008, the City purchased the four corporate bonds (medium term notes) currently held in the investment portfolio on March 26, 2008. These investments were purchased under the presumption that the City was able to purchase corporate bonds with up to a five year maturity, consistent with the City's Investment Policy guidelines previously in place. On January 26, 2006, the City's Investment Policy was updated, and staff inadvertently modified the corporate bond maximum maturity from five to three years. As stated in the January 23, 2006 Investment Policy Revision memorandum to the City Council, *"It should be noted that the revised Policy has not deviated from and continues to demonstrate the primary investment program goals and objectives stated in the current Policy"*.

Staff will recommend necessary changes to the Investment Policy during the annual City Council Investment Policy review and approval process, expected to occur before May 2009.

Alternatives Available to Council; Implications of Alternatives

1. Request the City Treasurer to prepare supplemental information for review by the City Council at a future meeting.

Fiscal Impact

The current overall yield on the City's portfolio of investments is 3.20%. An average yield of 3.00% was forecasted in the City's adopted budget for Fiscal Year 2008-09. Staff will monitor investment earnings and recommend changes to the budget, if necessary.

Attachment A – Investment Portfolio Analysis

Attachment B – Treasury Investment Pool Quarterly Comparison

City of Auburn
Portfolio Analysis
Quarter Ending December 31, 2008

Attachment A

12/31/2008

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<u>Fixed Rate Investments</u>			
US Government Bonds	\$ 3,037,300	3.96%	1,399
Corporate Notes	373,687	5.35%	1,205
Negotiable Certificates of Deposit	496,219	3.84%	662
Subtotal:	\$ 3,907,206		
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Dollar-Weighted Average Yield:		4.08%	
Dollar Weighted Days to Maturity:			1,286

Pooled Investments

State of California LAIF	\$ 41,042	2.77%	1
Placer County Investment Pool	2,076,409	3.33%	1
Subtotal:	\$ 2,117,451		
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Dollar-Weighted Average Yield:		3.32%	
Dollar Weighted Days to Maturity:			1

Unrestricted Financial Institution Investments

Wells Fargo Bank - Commercial Checking	\$ 996,282	0.45%	1
Wells Fargo Bank - Payroll Checking	67,339	0.45%	1
UMPQUA Bank Money Market	510,473	2.54%	1
ML Stern Securities (Money Markets)	14,926	1.33%	1
	\$ 1,589,020		
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Dollar-Weighted Average Yield:		1.13%	
Dollar Weighted Days to Maturity:			1

City of Auburn
Portfolio Analysis
Quarter Ending December 31, 2008

Attachment A

12/31/2008

	Market Value	Current Yield	Dollar Weighted Days to Maturity
<u>Restricted Financial Institution Investments</u>			
Bank of America - Chiropractic Checking	\$ 5,086	0.00%	1
Bank of America - Vision Checking	3,494	0.00%	1
Bank of America - Dental Checking	9,405	0.00%	1
Bank of America - Landfill Closure Account	112,731	0.30%	1
Placer Sierra Bank - AUESD Relocation Account	16,041	0.00%	1
	<u>\$ 146,757</u>		

Dollar-Weighted Average Yield: 0.23%
Dollar Weighted Days to Maturity: 1

Unrestricted Investment Portfolio Valuation	\$ 7,613,677	3.25%	661
Restricted Investment Portfolio Valuation	\$ 146,757	0.23%	1
Total Pooled Investments Portfolio Valuation	<u>\$ 7,760,434</u>	<u>3.29%</u>	<u>648</u>
Total AUDA Bond Proceeds Account	<u>\$ 4,602,138</u>	<u>3.43%</u>	<u>466</u>

City of Auburn
Bond Maturity - Detail
Quarter Ending December 31, 2008

Attachment A

12/31/2008

<u>US Agency Bonds</u>	<u>Market Value</u>	<u>Current Yield</u>	<u>Maturity</u>
Federal Home Loan Bank (\$500K)	502,455	3.73%	12/5/2011
Federal Farm Credit Bank (\$500K)	500,155	3.80%	3/26/2012
Federal Home Loan Bank (\$500K)	501,095	4.04%	2/5/2013
Federal Home Loan Bank (\$500K)	502,030	4.18%	2/19/2013
Federal National Mortgage Assn (\$500K)	500,315	4.15%	2/20/2013
Federal National Mortgage Assn (\$500K)	531,250	3.88%	5/28/2013
Subtotal:	\$ 3,037,300		
Dollar-Weighted Average Yield:		3.96%	
Dollar Weighted Days to Maturity:			1,399

Corporate Notes

HSBC Finance Corp (\$125K)	121,190	5.42%	1/14/2011
Lehman Brothers Holdings (\$125K)	11,875	0.01%	1/18/2012
Citigroup, Inc (\$125K)	120,466	5.50%	10/17/2012
Merrill Lynch (\$125K)	120,156	5.67%	2/5/2013
Subtotal:	\$ 373,687		
Dollar-Weighted Average Yield:		5.35%	
Dollar Weighted Days to Maturity:			1,205

Negotiable Certificates of Deposit

First Regional Bank (\$98K)	99,041	3.56%	11/30/2009
Washington Mutual Bank (\$98K)	99,105	3.71%	5/28/2010
Discover Bank (\$98K)	99,419	3.94%	11/29/2010
Capmark Bank (\$98K)	99,328	4.00%	5/31/2011
Provident Bank (\$98K)	99,326	4.00%	5/31/2011
Subtotal:	\$ 496,219		
Dollar-Weighted Average Yield:		3.84%	
Dollar Weighted Days to Maturity:			662

UBOC Total Valuations:	\$ 3,907,206	4.08%	1,286
Cost Basis:	\$ 3,988,410		
Net Unrealized Gain:	\$ (81,204)		

**CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS**

Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 12/31/08</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 09/30/08</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 06/30/08</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 41,042	2.77%	\$ 40,757	2.77%	\$ 40,446	3.11%
Placer County Treasury Investment	2,076,409	3.33%	2,056,926	4.14%	2,036,193	4.05%
US Govt/Agency Bonds (held by UBOC)	3,037,300	3.96%	4,481,230	4.03%	4,980,580	4.21%
Negotiable Certs. of Deposit (held by UBOC)	496,220	3.84%	484,357	3.94%	483,504	3.94%
Corporate Notes (held by UBOC)	373,686	5.35%	362,325	5.52%	488,811	5.87%
ML Stern & Piper Jaffray	14,926	1.33%	14,902	2.66%	14,848	0.87%
Wells Fargo Bank (Checking and Payroll)	1,063,621	0.45%	1,319,013	1.80%	2,122,606	1.22%
Bank of America (Landfill Trust Account)	112,731	0.30%	128,786	0.30%	94,309	0.30%
Bank of America (Vision Account)	3,494	0.00%	3,572	0.00%	3,629	0.00%
Bank of America (Dental Account)	9,405	0.00%	9,425	0.00%	9,505	0.00%
UMFQUA Bank (Money Market Demand)	510,473	2.54%	1,054,972	2.90%	1,047,339	3.06%
Commercial Paper (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Granite Community Bank (Cert. of Deposit)	-	0.00%	-	0.00%	561,138	3.75%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	5,086	0.00%	5,148	0.00%	5,205	0.00%
Totals	\$ 7,760,434	Overall Yield = 3.20%	\$ 9,977,454	Overall Yield = 3.62%	\$ 11,904,154	Overall Yield = 3.53%
AUDA Bond Proceeds Account						
Reliance Trust Company (CDARS Program)	\$ 4,602,133	3.43%	N/A		N/A	
Summary of Investments	12/31/2008		9/30/2008		6/30/2008	
State Pool	0.3%	\$ 41,042	0.4%	\$ 40,757	0.3%	\$ 40,446
County Pool	16.8%	2,076,409	20.6%	2,056,926	17.1%	2,036,193
Corporate Bonds	3.0%	373,686	3.6%	362,325	4.1%	488,811
U.S. Agencies	24.6%	3,037,300	44.9%	4,481,230	41.8%	4,980,580
Negotiable Certificate of Deposit	4.0%	496,220	4.9%	484,357	4.1%	483,504
Commercial Paper	0.0%	-	0.0%	-	0.0%	-
Financial Institutions	14.0%	1,735,777	25.6%	2,551,859	32.5%	3,874,620
AUDA Bond Proceeds / Debt Svc Reserve	37.2%	4,602,133	0.0%	N/A	0.0%	N/A
Investment Total	100.0%	\$ 12,362,567	100.0%	\$ 9,977,454	100.0%	\$ 11,904,154

Attachment B

State of California L.A.I.F.
Placer County Treasury Investment
US Gov't/Agency Bonds (held by UBOC)
Negotiable Certs. of Deposit (held by UBOC)
Corporate Notes (held by UBOC)
MML Stern & Piper Jaffray
Wells Fargo Bank (Checking and Payroll)
Bank of America (Landfill Trust Account)
Bank of America (Vision Account)
Bank of America (Dental Account)
UMPQUA Bank (Money Market Demand)
Commercial Paper (held by UBOC)
Granite Community Bank (Cert. of Deposit)
Wells Fargo Bank (AUESD Relocation)
Bank of America (Chiropractic Care Acct)

Overall Yield = 4.67%

N/A

Reliance Trust Company (CDARS Program)

9/30/2007

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CITY OF AUBURN
TREASURY INVESTMENT POOL
QUARTERLY COMPARISONS

Attachment B

<u>City of Auburn Pooled Investment Accounts</u>	<u>Investment Amounts at 06/30/07</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 03/31/07</u>	<u>Current Investment Yield</u>	<u>Investment Amounts at 12/31/06</u>	<u>Current Investment Yield</u>
State of California L.A.I.F.	\$ 38,524	5.25%	\$ 38,040	5.21%	\$ 37,558	5.11%
Placer County Treasury Investment	29,043	5.13%	28,683	5.06%	27,989	4.96%
US Gov't/Agency Bonds (held by UBOC)	6,882,163	4.69%	5,393,075	4.45%	3,677,820	4.06%
Negotiable Certs. of Deposit (held by UBOC)	-	0.00%	-	0.00%	-	0.00%
Corporate Notes (held by UBOC)	495,755	4.03%	994,570	5.25%	1,493,675	5.21%
ML Stern & Piper Jaffray	14,548	2.82%	14,447	2.62%	14,356	2.66%
Wells Fargo Bank (Checking and Payroll)	1,038,324	3.88%	717,237	3.88%	538,056	3.88%
Bank of America (Landfill Trust Account)	99,083	0.30%	19,414	0.30%	103,513	0.31%
Bank of America (Vision Account)	3,855	0.00%	3,902	0.00%	4,711	0.00%
Bank of America (Dental Account)	9,768	0.00%	9,920	0.00%	10,215	0.00%
UMPQUA Bank (Money Market Demand)	304,013	5.48%	300,013	5.42%	-	0.00%
Commercial Paper (held by UBOC)	1,214,322	5.33%	1,200,000	5.31%	-	0.00%
Granite Community Bank (Cert. of Deposit)	535,427	5.55%	527,857	5.65%	520,554	5.65%
Wells Fargo Bank (AUESD Relocation)	16,041	0.00%	16,041	0.00%	16,041	0.00%
Bank of America (Chiropractic Care Acct)	5,394	0.00%	5,434	0.00%	4,787	0.00%
Totals	\$ 10,686,260	Overall Yield = 4.67%	\$ 9,268,633	Overall Yield = 4.68%	\$ 6,449,275	Overall Yield = 4.36%
<u>AUDA Bond Proceeds Account</u>						
Reliance Trust Company (CDARS Program)	N/A		N/A		N/A	
<u>Summary of Investments</u>	<u>6/30/2007</u>		<u>3/31/2007</u>		<u>12/31/2006</u>	
State Pool	0.4%	\$ 38,524	0.4%	\$ 38,040	0.6%	\$ 37,558
County Pool	0.3%	29,043	0.3%	28,683	0.4%	27,989
Corporate Bonds	4.6%	495,755	10.7%	994,570	23.2%	1,493,675
U.S. Agencies	64.4%	6,882,163	58.2%	5,393,075	57.0%	3,677,820
Negotiable Certificate of Deposit	0.0%	-	0.0%	-	0.0%	-
Commercial Paper	11.4%	1,214,322	12.9%	1,200,000	0.0%	-
Financial Institutions	19.0%	2,026,453	17.4%	1,614,265	18.8%	1,212,233
AUDA Bond Proceeds / Debt Svc Reserve	0.0%	N/A	0.0%	N/A	0.0%	N/A
Investment Total	100.0%	\$ 10,686,260	100.0%	\$ 9,268,633	100.0%	\$ 6,449,275